Tourism Industry Aotearoa - White Paper

Developing Tourism Industry Research Capability

8 November 2019

Purpose
To set out the conceptual case and rationale for a new arrangement for supporting the tourism industry to take responsibility of its research requirements.

It is proposed that a portion of the International Visitor Levy (IVL) is assigned to the tourism industry to seed the establishment of an industry-led research capacity and capability. This would be a catalyst for further public and private sector investment in a carefully designed research ecosystem that meets the needs of industry, government, investors and destination managers.

Context
Tourism is an integral element of New Zealand society, and a leading component of New Zealand's export economy. There is a strong national interest in ensuring the sustainable growth of the tourism industry as expressed through the *New Zealand-Aotearoa Government Tourism Strategy* and the industry's *Tourism 2025 & Beyond – A Sustainable Growth Framework*.

Similarly, the introduction of the IVL reflects a commitment and means to invest in those areas of the tourism industry that have historically been under-supported.

It is very important that we get this right. A positive scenario is a tourism industry that generates wealth and quality jobs throughout New Zealand and is a key agent for regional prosperity and environmental regeneration. A negative scenario is tourism being seen by the New Zealand public as an intrusion on day-to-day lives, and a despoiler of the natural environment.

Given these potential pathways, it is essential that we manage the New Zealand tourism system to best effect, and generating new understandings and knowledge is essential for this to occur.

This paper has been prepared in the context of the Data Hui that the Minister of Tourism convened on 17 October 2019. While the Hui focused on 'data' as a clear area in its own right, this has an overlap with what are described as the wider Research, Science and Innovation (RSI) requirements which we see as being at different places on a spectrum of industry knowledge needs. This paper considers both but has emphasis more on RSI given the even more pronounced deficit in this area. The TIA Board has considered this matter and considers there is a pressing macro-industry change needed for research to generate new knowledge.

The Problem
With tourism deeply embedded in the New Zealand economy and impacting all parts of society and the lives of New Zealanders, it is important that there is sufficient understanding of how it works so that it can be effectively managed, and its opportunities are fully harnessed.

Over many years, the tourism industry has failed to find sustainable ways to deliver against its knowledge requirements, whether core tracking and measurement data or its wider research needs. While there is a limited or partial data programme that is delivered through MBIE, an equivalent tourism research capability does not exist.[1]

The fallback position for industry has been to rely on government provision of data, with occasional research projects by industry and government. This has provided, at best, a partial solution in terms of the:

- Limited nature, quality and quantum of the work undertaken – some data and very little research
- Sense of dependence on, and lack of control over, the tourism data agenda and outputs
- Lack of ability to leverage resources to be deployed to create a larger R&D programme.

The problem to be solved, therefore, is how to meet the information needs of industry, government, investors and destination managers in the most efficient and sustainable manner.

Why does this Problem exist?

The problem is not a recent issue, but one that has been an inherent characteristic of the tourism system for many years. At its heart, this is a market failure issue. As tourism has grown, the knowledge to support it has not scaled up accordingly. With this, the knowledge deficit has been becoming progressively more acute as a range of growth-related issues have emerged across New Zealand.

There are two general reasons for the problem:

1. The fragmented nature of the industry that does not permit the clubbed action for substantive and ongoing industry-good projects, nor for the collection of the type of supply-side levies that are a standard feature of New Zealand's primary sectors.[2] There is a very long tail of interests and businesses that benefit from tourism but are not directly tourism businesses.

2. The lack of recognition from the public sector of the importance of investing in industry knowledge as a positive contributor to industry well-being and growth. This has meant that investment in tourism data has been minimised as a cost to be reduced over time, rather than being seen as an investment; and the research-type investment has been largely absent.

Related to both of the above, there is a misconception of who the users and beneficiaries of the data and research resources actually are, and the ability of particular individuals or groups to appropriate gains.

Users of tourism data and research lie along a spectrum from public good, clubbed good, to private good. Within this, there are clear user groups: 1) central government; 2) local government; 3) commentators, analysts, consultants, investors, the public, academics; and 4) the industry itself. This spread of usage means that there is little to no incentive for any tourism business to invest in data and research that will then have any use across these four groups, or along the public good/private good spectrum. There is simply no

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[1] MBIE's tourism data programme has an annual budget of around $3.2m. The Government's annual Science and Innovation spend of $1.4 billion is substantial, but virtually none of it supports tourism research. Tourism is not included in the National Statement of Science Investment.

[2] Tourism suffers from a number of structural market failures due to the fragmented nature of the industry where 'clubbed industry-good' cannot be achieved without intervention. Areas where this market failure has been addressed include TIA's advocacy role supported through membership subscription, the Government's large investment in Tourism New Zealand to address the market failure for marketing, and the Government's limited investment in basic industry data. The market failure for substantive tourism research has found no solution.

incentive to do so, even though many of the critical industry issues need to be understood and addressed across this range of users. Tourism is a collective-action system, requiring a broad range of interventions to make it work well.

This problem requires a practical and enduring solution.

What do other sectors do?

Tourism is by no means unique in facing collective action issues. Indeed, most of New Zealand's export industries have these characteristics and our science and innovation systems have been structured to take this into account.

However, the current structural characteristics of the tourism research environment are markedly different to New Zealand's other large export industries, particularly the primaries industries – dairy, beef and lamb, wine, kiwifruit, horticulture, and others.

Each of these industries have substantial programmes to support their industry-good RSI requirements. The common thread is that these industries have a levy on the production of the commodity produced that is then used for industry-good activities, whether advocacy, marketing or research. Often these levies are enacted in legislation thereby providing an assured level of funding for the industries involved. Notably, these funds get vested with the industries themselves, and not a government agency. This enables the industry bodies to focus directly on the issues of most importance to their industry strategies, and to leverage other funding streams, whether public or private.[3]

For instance, the $1.7b export wine industry provides a compelling example of a leveraged industry research programme that the tourism industry should aspire to.

The wine industry body, New Zealand Winegrowers, in the year to June 2017 received levy income from the production of wine of $9.4m, of which $2.6m was allocated for industry-good research. These funds support an internal research capability and are used to undertake projects and to leverage other public and industry funding sources. Through this approach, New Zealand Winegrowers receives a further $3.3m from external funding sources for research, and a further $12.5m over four years from MBIE to establish and operate a regional research hub based in Marlborough. This enables New Zealand Winegrowers to manage a substantial $9m per year research programme. This includes specialised internal capacity, including a separate Board to guide the research effort, the programme manager, chief scientist, and the research and support staff to run the programme. New Zealand Winegrowers' member survey finds that research is the most valued function delivered to its members.

Similar leveraged programmes are in place for the industry bodies for the various primary industries: DairyNZ; Zespri; Meat and Lamb NZ; and others.

Furthermore, across the primary industries, there is a complex set of funding arrangements and institutions to deliver RSI for these industries. For instance, the industries have levies to generate industry RSI funds, there are Science and Innovation funds that can be tapped into such as MBIE's Endeavour Fund, MPI's Primary Growth Partnerships and Callaghan Institute's programmes, and there are the government-funded Crown Research Institutes (e.g. AgResearch, Plant and Food, forestry's Scion) and universities that have the capability to conduct research programmes. In addition, large industry players, such as Fonterra, invest commercially into the levy-based RSI programmes which further increases the overall research effort.

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[3] TIA is the peak tourism industry organisation. It undertakes industry-good activities that are focused on advocacy and communications from its $1.7m membership fees. Other than occasional projects that TIA supports, there is seen as no scope to substantially raise membership fees to cover industry research needs.

Quantification of the total investment in these areas by industry is difficult, but the scale of the public RSI is large and runs to many hundreds of millions of dollars and the level of work is impressive. For instance, the Fonterra Research and Development Centre, which is an important part of the overall research programme of the $12.4b dairy export industry, employs 300 staff, 130 of whom are PhDs.

There is no doubt that this RSI support has contributed massively to New Zealand's economic wellbeing and this investment should continue.

However, it is our contention that the $16.2b export tourism industry, as 21% of New Zealand's export economy, would also benefit significantly from appropriate research support. Persistent tourism industry issues, such as productivity, sustainability, seasonality, regional dispersal, carbon usage, workforce shortages, inadequate investment, and more, all suffer from inadequate knowledge to inform strategies, policies and commercial decisions to address each issue, and to inform industry planning. Furthermore, a range of knowledge is needed to assist the achievement of some broader societal goals, e.g. Maori entrepreneurship, wellbeing, revival of rural communities etc.

What are the solutions?
Conceptually, the tourism industry looks to the primary industries as a template for how the tourism system should be configured to address the current tourism research 'vacuum', or 'deficit'.

While there are some practical actions available to improve the current setting, such as better collaboration and tapping into wider tourism-related programmes,[4] these do not address the inherent structural deficit that the industry currently faces.

With the IVL, there is a unique opportunity to change the data and R&D settings. The Data Hui is best placed to consider any solutions in the data area, but to date no such process is in place for the wider research requirements.

As such, the following is proposed as a model for further investigation:

Allocate International Visitor Levy funds to industry-led Research

Issue: The structural inability to levy the supply-side of the tourism industry means that the industry cannot meet its research needs and cannot leverage other funding sources. It cannot replicate the methods used by the primary industries, as there is no 'commodity' to levy.

Possible Solution: Consider the International Visitor Levy as a 'demand-side' equivalent to the 'supply-side' levies used by primary industries and assign a portion of the funds raised to the industry to develop its research capability: with resources to undertake industry-good projects and to leverage other funding sources. It is important that these funds are vested with industry to support a programme of work (as opposed to being allocated by government to particular projects) to enable the benefits of leverage to be achieved.

Status: TIA has tested this concept with industry through the TIA Board and wider conversations. The task now is to engage with government with this concept, and then to develop it accordingly. Key things to consider include the structural arrangements, governance, funding arrangements and defining the needs. These components mirror the outcomes of the Data Hui, so it is important that this research work stream is undertaken in conjunction with the examination of industry data needs.

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[4] In this deficit situation, some initiatives do emerge, such as Lincoln University's Sustainable Tourism for Regions, Landscapes and Communities programme, or Callaghan Institute's support of Lightning Lab Tourism which is positive, but they do not address the key constraints the industry faces to ensure the information that it needs to ensure its sustainable future.

An associated key point for the tourism industry is that the Government's wider RSI system needs to be configured so that it is open to investing in tourism research, which is not the case at present. Ensuring an openness to investing is tourism research from the RSI system is a shift that TIA and the wider industry is advocating for, and it has to be part of the proposed model as set out above and it also has to occur in its own right in the wider interest of New Zealand and its future wellbeing.

Next Steps

This paper sets out the 'problem' of the persistently poor research performance of the tourism industry and the reasons behind this. From this, the concept of an IVL-funded research capability has been developed and TIA is keen to explore this concept with government and its agencies as part of the process to build a broad constituency of support.

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Appendix One: Characteristics of the Current Environment

In terms of the underdeveloped tourism research environment, there are two aspects to note:

1. **Publicly-funded Tourism RSI.** The tourism system is poorly served by public Science and Innovation funding. The government's Science and Innovation spend is $1.4 billion per annum, virtually none of which supports tourism research. Tourism is not included in the National Statement of Science Investment. Criteria for the large contestable funds, such as the Endeavour Fund, requires ground breaking research that does not align to the type of work that the tourism industry needs at this time. The RSI system has three key areas:

    - **Investigator-led.** Science excellence is the focus. Includes the university research (PBRF), Centres of Research Excellence, Marsden Fund and the Health Research Council. Totaling around $500m pa. Tourism supported only via the PBRF with some university research capacity. New Zealand has an academic tourism research capability but the incentives in play via the PBRF means that industry-valued research rarely emerges from this source.
    - **Mission-led.** Science excellence is the focus. Largely MBIE-administered. Includes Crown Research Institute funding ($145m), National Science Challenges ($132m), MBIE contestable funds ($190m). Totaling around $550m pa. Tourism not supported from these funds.
    - **Industry-led**. Long term sustainable economic growth, productivity and competitiveness is the focus. Largely Callaghan Institute administered. Totaling around $230m pa. Occasional tourism projects are supported, e.g. Air New Zealand have been supported, as was the recent Lightning Lab Tourism ($250k).

    In addition, there is around $120m of departmental Science and Innovation funding, including the MPI-administered $65m Primary Growth Fund.

    The criteria for these funds, especially the Mission-led and Industry-led areas, require industry co-funding which handicaps the tourism industry that has no base funds to leverage.

    Overall: the tourism industry is very poorly served by these public RSI funds; inhibited by the nature of the criteria and the requirements for industry co-funding.

2. **Privately-funded Research.** Market-failure within the highly fragmented tourism industry makes collective industry effort extremely difficult to achieve. There is no ability to levy tourism businesses given the size and scale of most tourism businesses, and because much of the benefit of tourism demand is enjoyed widely across the New Zealand economy by parties that are essentially non-tourism government or business stakeholders. Organising industry-good research is consistently difficult due to the lack of ability to appropriate private benefit and to prevent freeriding by non-contributing parties.

    Occasional collective effort projects are undertaken, such as TIA's Infrastructure Project (2017) and its Domestic Growth Insight Tool (2017), but these typically are one-off efforts requiring a concerted effort to elicit funding from individual tourism businesses. This approach is not seen as providing the sustainable and structural mechanism required to increase the industry's research capability.

Groups of firms on occasion will club together to commission a piece of research, such as the 2017 McKinsey report, but again this is not a structural solution. Also, some firms do conduct research of various types, with this mostly held as a proprietary resource. There are many examples where innovation by tourism firms has led to exciting product development and also to the export of tourism IP to other countries. However, this innovation is generally ad hoc, rather than systematic.

Overall: there is a structural inability of the tourism industry to address its collective industry-good research requirements. This is a fundamental characteristic, with no ready solution.